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24 October 1975

MEMORANDUM FOR THE RECORD

SUBJECT: Meeting with Mr. Charles W. Maddox re HSC Inquiry

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1. A meeting was held at 3:30 p.m., 20 October 1975, in Room 5-E-62, to brief Mr. Charles W. Maddox on the operations of Government Employees Health Association, Inc. (GEHA); STAT Public Service Aid Society (PSAS); Educational Aid Fund (EAF); and Employees Activity Association, Inc. (EAA). Present for the meeting were Mr. F. W. M. Janney, Director of Personnel; [redacted] Deputy Director of Personnel; and [redacted]

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[redacted] Deputy Chief of Benefits and Services DIVISION.

2. GEHA

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[redacted] began the meeting with an explanation of the purpose of GEHA's existence. He indicated that GEHA was an employee association initially organized and incorporated in 1947 for the primary purpose of providing group term health insurance for its members, all of whom are Agency employees. (The Federal Government provided no health insurance coverage for its employees until July 1960.)

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[redacted] explained that from this beginning, GEHA expanded its services to its members so that it today provides a variety of insurance plans including life, health, accidental death and dismemberment, travel, and income replacement insurance. Mr. Maddox asked who underwrites these plans and was told that they are underwritten by Mutual and United of Omaha.

The manner in which GEHA's various reserves (trust liabilities) were accumulated was explained; i.e., through refund of premiums from the underwriter of the plans in those years when claims experience was good, plus invest income on these refunds. Discussion focused primarily on the United Benefit Life Insurance Company (UBLIC) plan because it has a reserve far in excess of the total of all other reserves held by GEHA. The reason for this was also explained. Figures were presented to show that until 1964, UBLIC

refunds of premiums were passed on to individual participants of the plan. Thereafter, the GEHA Board of Directors elected to use this money for improving the benefits of the UBLIC plan rather than make annual cash refunds. Increased life insurance for the employee and free life insurance for his dependents were the first improvements made. Thereafter, in May 1966, a free life insurance was made available to retirees who had participated in the UBLIC plan for at least 10 years prior to their retirement. Details of this retiree life insurance, including computation and funding, were explained.

This led to a discussion of GEHA's investment portfolio, the majority (\$2.1 million) of which is attributable to the funding of the UBLIC retiree insurance. It was disclosed that management of the portfolio is by a committee of three members who are chosen by the GEHA Board of Directors and responsible to them. In response to a question regarding their expertise in financial management, [redacted] stated that since the Directors are elected by the GEHA membership, there is no assurance that any of them would have any special investment experience; however, most of the time there is usually at least one Board member who is knowledgeable through experience with his own personal investments. It was pointed out that GEHA investments had been in Government securities in the early years, in insured savings and loan accounts in the early and mid-1960's, and thereafter in a combination of commercial bonds, FNMA's, and a limited holding of common stocks. Charts of current holdings and past sales were shown to Mr. Maddox. He indicated that GEHA's investment record was not particularly outstanding and remarked that we might be better off following VIP's practice. [redacted] indicated that this was a possibility since the thinking of the current GEHA Board and Investment Committee was to sell its holdings when the market is favorable and then reinvest in safe securities that provide a reasonable return and require less frequent attention. STAT

Thereafter, there followed a brief discussion of GEHA's other insurance programs. It was pointed out that GEHA's Association Benefit Plan (ABP) is a participant of the Federal Employees Health Benefits Program and as such is subject to the law and regulations of that program as implemented by the U. S. Civil Service Commission. Consequently, there is another reserve, attributable to the ABP, but it is held, invested and controlled by the CSC.

3. PSAS and EAF

Having completed discussion of GEHA, [redacted] described the origin, purpose and methods of operation of PSAS and EAF. This was somewhat simplified by use of a copy of the pamphlet that accompanies this year's Combined Federal Campaign materials. Mr. Maddox requested that he be permitted to keep a copy of this unclassified pamphlet and it was given to him. (See copy attached.) [redacted] indicated that the shares of stock held in the EAF investment were donations and that there is no intention to engage in this type of investment. Recent financial statements of both PSAS and EAF were shown to Mr. Maddox. He asked if directors of these activities were also on any other investment committees. To the knowledge of those present, this was not the case, although Mr. Janney and others served as Directors on other programs. Mr. Maddox also asked for examples of circumstances under which an employee qualified for a PSAS loan and how it was eventually determined to write off certain loans of the program as losses.

4. EAA

The final activity discussed with Mr. Maddox was the EAA. Having audited similar activities in other Government agencies, the EAA operation of clubs and hobby groups, ticket sales, athletic programs, and a store were not new to him. He was shown a copy of the complete EAA financial report for calendar year 1974. Although not a concern of his current review, Mr. Maddox volunteered that the GAO has a particular interest in seeing that the Government is reimbursed for the floor space and utilities used by such sales activities in Government buildings and that we should review our policy on this subject and somewhere record it.

5. The meeting was concluded with Mr. Maddox stating that he saw no particular problem with GEHA, PSAS, EAF, or EAA, all of which he considered normal operations. He did take notes, and particularly recorded the dollar levels and specific breakouts of the UBLIC reserves and the PSAS, EAF and EAA accounts. When we mentioned the Credit Union, he indicated he was not interested since Credit Unions are controlled by other laws.

[redacted]
Deputy Chief
Benefits and Services Division

Att

28 October 1975

Distribution:

Orig & 1 - Chief, Review Staff
1 - DDA
1 - [redacted] O/DDA
~~1 - D/Pers Subject~~
1 - D/Pers Chrono
1 - DD/Pers
1 - BSD

3. Direct Billing: Fill in the total amount of your annual pledge on your card and indicate the amount in the box provided for Direct Billing. Also print your room number in the box on the top line. You may make payments on your pledge any time during 1976. Quarterly statements will be sent to you on the unpaid balance (April, July, October 1976, and January 1977 prior to closing our books).

4. You may pay your pledge by a combination of the above plans.

EXAMPLE: A \$25.00 pledge may be paid by a deduction of 50¢ per pay period if you are paid every 2 weeks and the remaining \$12.00 may be paid in cash or check during the Drive, or by Direct Billing in quarterly payments.

5. Personnel paid every four weeks may contribute to CFC and/or EAF only by cash, check, or Direct Billing.

CONTRIBUTIONS

1. Your contribution to PSAS may be made either by check or cash. Payroll Deductions and Direct Billing plans are not available for PSAS contributions.

2. Checks are to be made payable to "CONSOLIDATED CHARITIES."

CONFIDENTIAL CONTRIBUTIONS

1. Enclose your pledge card with your contribution in a sealed envelope. Write the control number of the card on the envelope and turn it in to your Keyperson. This envelope will then be delivered, UNOPENED, to the Fund Drive Coordinator.

RECEIPTS

1. The Fund Drive Coordinator will furnish you a receipt for cash contributions to CFC, EAF, and PSAS if you write "Receipt Requested" and your name and office address.

2. Receipts for Direct Billing pledges will be issued by the Office of the Fund Drive Coordinator when a payment is made in cash.

TAX DEDUCTIONS

1. Contributions to CFC, EAF, and PSAS are tax deductible items.

2. Contributions to CFC and EAF paid by payroll deduction may be deducted on your 1976 tax return. If you wish to deduct your contributions to CFC and EAF on your 1976 tax return, you should pay the balance of your pledge in cash or check before 31 December 1976.

3. If you are making a contribution by payroll deduction, you should retain your earning statements to verify the amount to be used on your tax return. You may obtain a statement of withholding from the payroll office if you are required by a tax authority to show proof of the amount withheld for charitable purposes.

PUBLIC SERVICE AID SOCIETY (PSAS)

The Public Service Aid Society is a non-profit corporation organized under the laws of the District of Columbia on 31 December 1955 for the purpose of rendering assistance, financial and otherwise, to eligible individuals in urgent need of assistance who have exhausted every reasonable means of self help.

POLICIES

The Public Service Aid Society assists deserving individuals through financial and other means; each request is considered in confidence on an individual basis.

Direct financial assistance is offered as a non-interest bearing loan. Loans are generally made on a deferred payment basis and with a level of payment which takes into account the individual's particular circumstances.

When financial assistance is not required, aid may be in the form of advice and counseling or guidance in contacting appropriate health or other assistance organizations.

Typical of the needs for which PSAS has provided assistance are the following:

- Emergency or unusually heavy medical or hospital expenses, not covered by insurance.
- Emergency travel funds when critical illness or death occurs in the immediate family.

- Funeral expenses of a member of the immediate family.
- Relief from indebtedness under circumstances meriting assistance and beyond individual's capacity for repayment in normal period of time.

PSAS will not make loans that would normally be obtained from the Credit Union, banks or other sources, or for matters which are primarily under the control of the individual for his personal economic convenience, such as financing the purchase of personal property. The applicant must demonstrate a pressing need and must have exhausted every reasonable means of self-assistance. Requests for assistance should be submitted by the applicant directly to the Personal Affairs Branch, Office of Personnel, Room 5 E 11 Headquarters. All such requests will be handled in confidence.

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SOURCE OF FUNDS

PSAS obtains its funds entirely through voluntary contributions. Such contributions are deductible for income tax purposes. PSAS would have been unable to achieve its objective without the support it has received from many individuals. During the 1974-1975 Consolidated Fund Campaign, PSAS received \$9,412.84.

ADMINISTRATION

The Society is administered by a Board of Trustees composed of officials from various components of the Agency. The Board meets annually to consider policies and affairs of the Society and to elect officers. An Executive Committee is empowered to act for the Board in the consideration and approval of requests for assistance.

During the Fiscal Year 1975, eighteen loans were approved for a total of \$21,334.69.

LOAN ACTIVITIES AS OF 30 JUNE 1975

Loans receivable	65	\$94,366.34
New loans 1 Jan-30 June	9	10,112.43
Paid up loans 1 Jan-30 June ..	8	3,964.61
Payments received in 1975	171	9,557.61
Average monthly income from loan repayments in 1975		1,592.93

EDUCATIONAL AID FUND (EAF)

Through the Educational Aid Fund, EAF, you help the sons and daughters of deceased, retired, and active Agency employees fulfill their hopes and plans for further education. Your generosity is a warm and friendly act, a manifestation of faith in the future.

EAF awards come either in the form of direct grants or interest-free loans, which are not repayable until after the student graduates. The vast majority of awards are loans, and the principal source of funds for the awards is the annual EAF Campaign.

Factors taken into consideration in selecting EAF awards are: financial need; academic achievement; motivation, as demonstrated by part-time work and extracurricular activities; and a personal essay written by the applicant. All applications are reviewed and considered in anonymous form by the EAF Selection Committee and, in turn, the EAF Board of Trustees.

More than one member of the same family may receive awards and awards may be given to the same individual in successive years if the student reapplys. Moreover, the EAF Board within the past two years has instituted a new policy of considering applications from students entering or attending junior colleges and post-highschool-vocational schools, rather than limiting the awards to four-year college students as in previous years.

The EAF also awards four special grants each year:

The Matthew Baird Award is granted exclusively to the student who demonstrates unusually high personal motivation through self-help.

The John A. McCone Award is granted to the student whose financial need is particularly significant.

The Frank G. Wisner Scholarship is awarded on the basis of outstanding academic and personal achievement.

The Lawrence K. White Award is granted to the student who has demonstrated unusual leadership qualities.

Last year, your contributions totaled \$31,036.30 and helped make possible the awarding of 35 loans ranging from \$750 to \$1,000, 5 special grants of \$300 each and five special awards totaling \$8,500. In its eleven years of existence, the EAF has given 406 awards valued at \$244,400.

PAYROLL DEDUCTION SCHEDULE

Listed below is a scale of biweekly deductions from 25¢ to \$15.00 and the total annual value of each if deducted from your salary every pay period for one full year. If you wish to have your pledge paid by payroll deduction, please determine the amounts you wish deducted each pay period from this scale and the corresponding annual pledge and record these amounts in the appropriate spaces on the pledge card.

Biweekly Deduct.	Annual Pledge	Biweekly Deduct.	Annual Pledge	Biweekly Deduct.	Annual Pledge	Biweekly Deduct.	Annual Pledge
\$.25 =	\$ 6.50	\$2.75 =	\$ 71.50	\$5.25 =	\$136.50	\$7.75 =	\$201.50
.50 =	13.00	3.00 =	78.00	5.50 =	148.00	8.00 =	208.00
.75 =	19.50	3.25 =	84.50	6.75 =	149.50	8.25 =	214.50
1.00 =	26.00	3.50 =	91.00	6.00 =	158.00	8.50 =	221.00
1.25 =	32.50	3.75 =	97.50	6.25 =	162.50	8.75 =	227.50
1.50 =	39.00	4.00 =	104.00	6.50 =	169.00	9.00 =	234.00
1.75 =	45.50	4.25 =	110.50	6.75 =	175.50	9.25 =	240.50
2.00 =	52.00	4.50 =	117.00	7.00 =	182.00	9.50 =	247.00
2.25 =	58.50	4.75 =	123.50	7.25 =	188.50	9.75 =	253.50
2.50 =	65.00	5.00 =	130.00	7.50 =	195.00	10.00 =	260.00

Other \$ _____

1975-1976 CONSOLIDATED FUND CAMPAIGN PAMPHLET

Enclosed is your CFC/EAF/PSAS Consolidated Fund Campaign pledge card. Return the pledge card to your Keyperson whether or not you make a contribution. Return of all pledge cards is required for audit purposes and to ensure that no contribution is lost.

Consolidated Fund Campaign is the combination of the Agency's fund drive for the Educational Aid Fund and the Public Service Aid Society being conducted concurrently with the Metropolitan Washington Area's Combined Federal Campaign.

Combined Federal Campaign (CFC) represents many charitable organizations and agencies. You may designate a specific agency or agencies to receive your contributions by entering that Agency's assigned number in the box on the back of the pledge card. A listing of CFC organizations and agencies with assigned numbers are listed in the CFC contributor's leaflet.

HOW TO MAKE YOUR CFC/EAF/PSAS CONTRIBUTION

1. **Cash or Check:** Contributions by check for CFC, EAF, or PSAS should be made payable to **CONSOLIDATED CHARITIES** only. Indicate the dollar amount being contributed in the block marked "Cash or Check" on the pledge card.

2. **Payroll Deduction:** Complete your pledge card and return it to your Keyperson. In order for the Payroll Branch to deduct your contribution each payday, you must sign the card.

a. When you use the payroll deduction plan, you authorize the deduction of a specific amount from your pay each pay period during 1976. This authorization remains in effect unless terminated by you in writing.

b. Indicate on your card the total annual amount you wish to pledge and the amount to be deducted each pay period. The minimum deduction is 25¢ biweekly for a total annual pledge of \$6.50. A table showing various bi-weekly deductions and the corresponding total annual pledge is located on the last page of this pamphlet.